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ANNUAL
REPORT
1974



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DIRECTORS

George A. Fierheller
President,
Systems Dimensions Limited
Ottawa, Ontario

James G. S. Gammell, M.B.E., C.A.
Partner,
Ivory & Sime
Edinburgh, Scotland

R. A. Hammond-Chambers
Partner,
Ivory & Sime
Edinburgh, Scotland

Neil B. Ivory
President,
Pembroke Management Ltd.
Montreal, Quebec

John S. Lane, C.F.A.
Financial Vice-President, Securities
Sun Life Assurance
Company of Canada
Montreal, Quebec

Clifford L. Larock, F.C.I.S.
Chairman,
Pembroke Management Ltd.
Montreal, Quebec

Donald B. McCaskill
President and Chairman of the
Executive Committee,
Connlab Holdings Limited and
Connaught Laboratories Ltd.
Toronto, Ontario

A. Deane Nesbitt, O.B.E., D.F.C.
President and
Chief Executive Officer,
Nesbitt, Thomson and
Company, Limited
Montreal, Quebec

OFFICERS

Clifford L. Larock, F.C.I.S.
President

Neil B. Ivory
Vice-President

Ian A. Soutar, C.F.A.
Vice-President

A. Scott Taylor, C.F.A.
Vice-President

Richard Haller
Secretary-Treasurer

Cyril F. Reid
Assistant Secretary-Treasurer

MANAGERS

Pembroke Management Ltd.
Montreal, Quebec

LISTED

Montreal Stock Exchange

AUDITORS

Touche Ross & Co., Chartered Accountants,
Montreal, Quebec

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company

HEAD OFFICE

1018 Sun Life Building,
Dominion Square,
Montreal, Quebec
H3B 2W8

TO THE SHAREHOLDERS:

REVIEW OF 1974

Reflecting sharply lower North American stock markets Shareholders' Equity declined 26.5% during the year to \$22.9 million, while net asset value per common share fell 33.4% to \$6.18. (If the investments in Associated Companies were taken at market prices, this value would be \$5.08).

The Company increased its holdings in Headway Corporation Limited and Toromont Industries Ltd. during the year and now, as is the case with Revelstoke Companies Ltd., classifies these investments as Associated Companies. Their financial results have been treated on an equity accounting basis effective 1st January, 1974. Further information on these three Associated Companies and on three of the other large investments is provided below.

Consolidated net income for the year, including that from GBC's Associated Companies, rose 58.9% to \$1.2 million, equivalent after preferred dividends to \$0.34 per common share (\$0.17 in 1973). In view of the growth in income the annual dividend was raised to six cents per common share (four cents in 1973).

STRATEGY

As described in previous reports, the principal elements of the Company's strategy are: the concentration of GBC's portfolio into a small number of major positions that offer attractive longer term growth; the retention in Dominion-Scottish of a diversified but growth oriented portfolio of investments; and the selection for Sutton Ventures of junior companies with particular emphasis on those engaged in high technology.

The inclusion of earnings from Associated Companies, together with higher dividends from some portfolio investments, has resulted in substantial increases in GBC's earnings over the past two years. The Company's objective is to raise further its net earnings and common dividends through increases in Associated Company income and a greater emphasis on higher yielding portfolio investments that also offer the potential of longer term capital growth.

SUBSIDIARIES

DOMINION-SCOTTISH INVESTMENTS LIMITED

During the year Shareholders' Equity of Dominion-Scottish declined 28.7% to \$13.5 million, a result approximately comparable to the broad North American stock indices; in the same period the Toronto Stock Exchange Industrial and Standard & Poor Composite stock indices fell 28.0% and 29.7% respectively.

SUTTON VENTURES LTD.

Sutton experienced another very disappointing year with Shareholders' Equity dropping 46.3% to \$1.5 million. In most cases the companies in which Sutton has invested achieved very satisfactory results, but the stock market treated vir-

tually all junior equities very harshly in 1974. The one private investment, Shared Medical Systems, had another highly successful year, increasing profits by over 40% and contracting for a record amount of new business.

ASSOCIATED COMPANIES

HEADWAY CORPORATION LIMITED

For the fiscal year ended 31st August, 1974 Headway reported cash flow of \$2.9 million or \$0.96 per share and net income of \$1.33 million or \$0.45 per share. These figures compare with \$0.97 and \$0.47 per share in 1973. Results were below earlier expectations due to heavy losses on certain construction projects and the company plans to adopt a very selective attitude towards all new construction. Headway's major income producing property venture, a shopping mall called "Keskus" in Thunder Bay, is partially completed and should be fully leased by the spring. The apartment buildings in the company's portfolio of revenue producing properties presently enjoy a high occupancy level. In view of the uncertain period ahead for the house building industry financial results in 1975 may not show any significant improvement over the previous year.

REVELSTOKE COMPANIES LTD.

In 1974 Revelstoke's Retail Division experienced a major increase in both sales and profits. This excellent performance was attributable to the new merchandising programs and the buoyant economy of Revelstoke's principal market areas, namely Alberta and the remainder of the Prairies. The Concrete Division also achieved record sales and profits but the Lumber Division operated at a substantial loss due to the depressed condition of the lumber market. This major reversal in the results at the Lumber Division caused Revelstoke's earnings for 1974 to decline from the 1973 level.

In 1975 the Retail and Concrete Divisions should continue to record satisfactory progress and the Lumber Division should show an improvement.

TOROMONT INDUSTRIES LTD.

Toromont has extensive manufacturing operations in Canada and the United States and sells its products and services throughout the world. The main thrust of the company is concentrated in the industrial refrigeration field with special emphasis on food processing plants and equipment for the petrochemical industry. The CIMCO division is the leading North American builder of ice rinks for both skating and curling. Toromont's other activities include the manufacture of electrical components, a range of pumps for industrial use and certain building products.

For the nine months ended 30th September, 1974 earnings per common share were 29 cents (21 cents in 1973) and for all of 1974 it is estimated that Toromont met its profit plan of \$2.1 million which is equivalent to net earnings of 45 cents per common share.

OTHER MAJOR INVESTMENTS

THE ORLANDO REALTY CORPORATION LIMITED

Orlando is Canada's largest developer of industrial parks. The first major project was the Airport Park in Toronto which was undertaken in partnership with North American Life. In addition to continuing development of the Airport Park work is currently in progress on four other industrial parks in the Toronto area all of which are for the company's own account.

Orlando is now retaining an increasing proportion of the industrial buildings constructed to add to its portfolio of revenue producing properties which now consists of approximately four million square feet of industrial space. These buildings are rented to clients on long term leases.

Orlando is also active in the development of shopping centres all of which are located in Southern Ontario, and currently holds over 1.5 million square feet of retail space. Two new shopping centres with a total area of over 500,000 square feet are under construction, one in Toronto and one in St. Thomas.

In 1973 Orlando had net earnings of \$1.21 per share and a cash flow from operations of \$2.84, and for the nine months to 30th September, 1974 net earnings were 84 cents a share (76 cents in 1973) and cash flow per share was \$1.96 (\$1.72 in 1973). These figures indicate that 1974 was another satisfactory year for Orlando.

PEOPLES DEPARTMENT STORES LTD.

Peoples reported satisfactory results for the fiscal year ended 31st July, 1974 with sales rising 17% and net earnings 7%. The decline in margins reflected the expansion costs of the Gordon MacKay division whose earnings were below the level achieved in the previous year. Eight additional Marks & Spencer stores were opened during the year, bringing the total to 15, and, although sales per store rose substantially, this 50% owned affiliate operated at a loss.

Margins are being adversely affected by escalating operating costs and increasingly competitive retail conditions and, at this stage, unchanged or moderately lower earnings are anticipated for the current fiscal year.

Marks & Spencer Limited of the United Kingdom has announced its intention to offer to purchase 50% of the shares of Peoples outstanding in the hands of the public at \$10 per share. The formal offer will be made to shareholders whenever various governmental approvals in the United Kingdom and Canada have been secured.

TONECRAFT LIMITED

Tonecraft is a leading manufacturer and retailer of paint, wallpaper and other home decorating products with manufacturing facilities in Toronto and Vancouver and 79 stores in five Canadian provinces. Over the five year period ended in 1973 sales and net earnings grew at compound annual rates of 14.1 and 14.5% respectively.

For the first nine months of 1974 Tonecraft reported a 24.2% rise in sales and a 24.7% increase in net earnings compared with the same period in the previous year. Fourth quarter results are expected to compare favourably with the 1973 final period. Despite the adverse effects of a depressed housing industry and the costs of an exceptionally large store opening program, net earnings of Tonecraft are expected to increase again in 1975.

OUTLOOK FOR 1975

Canada's gross national product is unlikely to grow by more than 2% in real terms during 1975, the slowest rate of gain since 1954. Expected strength in government expenditures, non-residential capital spending and consumer non-durables and services is projected to be partially offset by real declines in spending for consumer durables, residential construction and exports. Corporate profits are anticipated to drop at least 10% as companies experience the difficult combination of sharply higher operating costs and weaker final demand.

On a more positive note, there are clear indications of a move to greater monetary ease in both the U.S. and Canada and short term interest rates have fallen sharply in recent months. Commodity prices are declining and prospects for a moderating rate of inflation appear better than they have for the past two years. The stock market is beginning to show evidence of forming a base, probably in anticipation of the economic turn-around that is likely to develop late this year or early in 1976.

In view of the expected stock market recovery, a fully invested position appears appropriate at this time, with particular emphasis on those companies that are financially sound and relatively insensitive to the business cycle.

DIRECTORATE

Mr. Douglas W. Parkin has been nominated for election as a Director to fill the vacancy on the Board which will be created upon the sanction by the Shareholders of By-law No. Eight.

This by-law provides for the number of Directors of the Company to be increased from eight to nine.

SPECIAL AND ANNUAL GENERAL MEETING

The Special and Annual General Meeting of the Shareholders of the Company will be held on 11th April, 1975, at the Head Office of the Company.

On behalf of the Board,

Clifford L. Larock,
President.

Montreal, Quebec
21st January, 1975

GBC CAPITAL LTD.
and subsidiary companies

**CONSOLIDATED
STATEMENT OF INCOME AND
RETAINED EARNINGS**
for the Year Ended
31st December, 1974

	<u>1974</u>	<u>1973</u>
INCOME FROM INVESTMENTS		
Securities in investment portfolios	\$ 673,263	\$ 739,011
Associated companies (share of earnings—Note 3) . . .	<u>966,142</u>	<u>451,400</u>
	<u>1,639,405</u>	<u>1,190,411</u>
Management expenses (Note 8)	<u>158,650</u>	<u>203,965</u>
Other expenses	<u>47,820</u>	<u>70,676</u>
Interest	<u>18,531</u>	<u>30,421</u>
	<u>225,001</u>	<u>305,062</u>
	<u>1,414,404</u>	<u>885,349</u>
Income and withholding taxes	<u>(47,469)</u>	<u>30,122</u>
	<u>1,366,935</u>	<u>915,471</u>
Minority interest	<u>153,438</u>	<u>150,421</u>
NET INCOME	<u>1,213,497</u>	<u>765,050</u>
Retained earnings at beginning of year	<u>979,082</u>	<u>636,809</u>
	<u>2,192,579</u>	<u>1,401,859</u>
Dividends:		
5¼% Preferred shares	<u>315,000</u>	<u>315,000</u>
Common shares	<u>159,686</u>	<u>107,777</u>
	<u>474,686</u>	<u>422,777</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$1,717,893</u>	<u>\$ 979,082</u>
Net income per Common share	<u>\$0.34</u>	<u>\$0.17</u>

AUDITORS' REPORT
To the Shareholders,
GBC Capital Ltd.

We have examined the consolidated statement of financial position of GBC Capital Ltd. and subsidiary companies as at 31st December, 1974 and the consolidated statement of income and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the consolidated financial position of the companies as at 31st December, 1974 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Que.
17th January, 1975.

Touche Ross & Co.
Chartered Accountants.

GBC CAPITAL LTD.
and subsidiary companies

**CONSOLIDATED
STATEMENT OF
FINANCIAL POSITION**

as at 31st December, 1974

	<u>1974</u>	<u>1973</u>
INVESTMENTS		
Securities in investment portfolios at market value (Note 2)	\$15,982,651	\$31,079,052
Associated companies (Note 3)	<u>9,347,016</u>	<u>3,430,900</u>
	<u>25,329,667</u>	<u>34,509,952</u>
CURRENT ASSETS		
Cash and short term deposits	341,166	2,593,948
Accounts receivable	20,431	719,250
Accrued income on investments	235,774	112,984
Income taxes recoverable	407,835	80,919
	<u>1,005,206</u>	<u>3,507,101</u>
CURRENT LIABILITIES		
Bank loans	81,000	—
Preferred dividend payable	78,750	78,750
Accounts payable and accrued expenses	<u>36,836</u>	<u>3,437,224</u>
	<u>196,586</u>	<u>3,515,974</u>
NET CURRENT ASSETS (LIABILITIES)	<u>808,620</u>	<u>(8,873)</u>
	<u>26,138,287</u>	<u>34,501,079</u>
MINORITY INTEREST	<u>3,225,181</u>	<u>3,397,222</u>
SHAREHOLDERS' EQUITY (Note 7)	<u>\$22,913,106</u>	<u>\$31,103,857</u>
REPRESENTED BY		
Capital stock (Note 4)	\$21,968,574	\$21,968,574
Contributed surplus	1,325,310	1,325,310
Retained earnings	1,717,893	979,082
Surplus from changes in investments (Note 5)	3,560,806	4,623,911
Unrealized (depreciation) appreciation of investments (Note 2)	<u>(5,659,477)</u>	<u>2,206,980</u>
	<u>\$22,913,106</u>	<u>\$31,103,857</u>

On behalf of the Board:

C. L. LAROCK, Director

NEIL B. IVORY, Director

GBC CAPITAL LTD.
and subsidiary companies

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**
31st December, 1974

**Note 1. Summary of Significant Accounting
Policies**

(a) Principles of consolidation

The consolidated financial statements include the accounts of Dominion-Scottish Investments Limited (97.13% owned) and Sutton Ventures Ltd. (100% owned) and give effect to the share of earnings attributable to investments in associated companies. (See Note 3).

(b) Equity accounting

The Company accounts for its investments in associated companies on the equity method. Although in Canada such holdings would not of themselves warrant the use of the equity method, the Company believes it is appropriate in these particular cases.

(c) Foreign currencies

Transactions in foreign currencies during the year were recorded at the relative rates of exchange applicable on the dates of such transactions. Amounts in foreign currencies included in assets and liabilities have been shown in Canadian funds, converted at rates of exchange applicable at the end of the year, any adjustment thereon being credited or charged, as the case may be, to Surplus from Changes in Investments.

**Note 2. Securities in Investment Portfolios at
Market Value**

	1974	1973
GBC Capital Ltd.	\$ 3,352,802	\$10,555,294
Dominion-Scottish Investments Limited.	11,319,172	18,257,072
Sutton Ventures Ltd.	1,310,677	2,266,686
	<u>15,982,651</u>	<u>31,079,052</u>
Securities at average cost.	20,319,822	28,175,193
	<u>(4,337,171)</u>	<u>2,903,859</u>
Amount required to adjust average cost from a corporate basis to a consolidated basis	<u>(1,322,306)</u>	<u>(696,879)</u>
Balance included in Shareholders' equity as unrealized (depreciation) appreciation of investments.	<u><u>\$ (5,659,477)</u></u>	<u><u>\$ 2,206,980</u></u>

Note 3. Associated Companies

The Company's share of equity values, on a fully diluted basis, at 31st December, 1974, is as follows:

	Share of Equity	Share of Earnings for the Year
Revelstoke Companies Ltd.	\$3,783,400	\$432,500
Headway Corporation Ltd.	2,322,465	166,881
Toromont Industries Ltd.	<u>2,313,000</u>	<u>366,761</u>
	<u><u>\$8,418,865</u></u>	<u><u>\$966,142</u></u>

The investment in associated companies of \$9,347,016 includes an amount of \$928,151 representing the excess cost of the investments over the equity value less amortization. The amortization is over 40 years and the current charge for the year, netted against equity earnings, is \$23,799.

The market value of these investments as at 31st December, 1974 is \$6,419,127.

Note 4. Capital Stock

	<u>1974</u>	<u>1973</u>
5¼% cumulative redeemable first preferred shares of the par value of \$50 each		
Authorized and issued — 120,000 shares	\$ 6,000,000	\$ 6,000,000
Common shares without nominal or par value		
Authorized — 7,500,000		
Issued — 2,694,429	<u>16,166,574</u>	<u>16,166,574</u>
	<u>22,166,574</u>	<u>22,166,574</u>
Less: Shares held by a subsidiary at stated value		
33,000 common	<u>198,000</u>	<u>198,000</u>
	<u>\$21,968,574</u>	<u>\$21,968,574</u>

The first preferred shares are redeemable at the option of the Company at any time in whole or from time to time in part, on not less than 30 days' notice, at \$52.50 per share (in one restricted event at \$50 per share) plus accrued and unpaid dividends, if any, to the date of redemption. The Company may, at any time and from time to time, also purchase the whole or any part of such preferred shares in the open market at a price not exceeding the redemption price thereof plus costs of purchase.

Note 5. Surplus from Changes in Investments

	<u>1974</u>	<u>1973</u>
Balance at beginning of year	\$ 4,623,911	\$ 4,247,792
(Loss) gain on changes in investments (including loss on exchange 1974 — \$48,455, 1973 — gain \$795) . .	<u>(1,287,615)</u>	<u>685,566</u>
Income taxes on changes in investments	<u>224,510</u>	<u>(309,447)</u>
	<u>(1,063,105)</u>	<u>376,119</u>
Balance at end of year	<u>\$ 3,560,806</u>	<u>\$ 4,623,911</u>

GBC CAPITAL LTD.
and subsidiary companies

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**
(Continued)
31st December, 1974

Note 6. Statement of Changes in Financial Position

A statement of changes in financial position has been omitted since it is deemed inappropriate for an investment company. The following statement showing changes in shareholders' equity has been substituted therefore.

Note 7. Changes in Shareholders' Equity

	<u>1974</u>	<u>1973</u>
Shareholders' equity at beginning of year.....	<u>\$31,103,857</u>	<u>\$36,891,727</u>
Add:		
Net income for the year.....	<u>1,213,497</u>	<u>765,050</u>
Deduct:		
Cost of investments sold.....	<u>9,855,489</u>	18,285,359
Less: Proceeds from investments sold.....	<u>8,616,329</u>	<u>18,970,130</u>
Net loss (gain) on changes in investments.....	<u>1,239,160</u>	(684,771)
<i>less</i> Income taxes on changes in investments.....	<u>(224,510)</u>	309,447
Loss (gain) on exchange.....	<u>48,455</u>	(795)
Dividends:		
5½% preferred shares.....	<u>315,000</u>	315,000
Common shares.....	<u>159,686</u>	107,777
Increase in unrealized depreciation of investments.	<u>7,866,457</u>	6,506,262
	<u>9,404,248</u>	<u>6,552,920</u>
Decrease for the year.....	<u>8,190,751</u>	<u>5,787,870</u>
Shareholders' equity at end of year.....	<u>\$22,913,106</u>	<u>\$31,103,857</u>

Note 8. Directors and Officers

The Board of Directors consists of eight members whose aggregate remuneration from the Company (included in management expenses) amounted to \$9,356 in 1974 (1973 — \$9,362) and \$9,939 from subsidiaries (1973 — \$9,608). There are six Officers of the Company, two of whom are also Directors. The Officers of the Company received no remuneration in 1974 (1973 — \$5,625 and from subsidiaries \$2,820).

GBC CAPITAL LTD.
and subsidiary companies

INVESTMENT PORTFOLIOS
as at 31st December, 1974

	Number of Shares	Market Value
BANKS AND FINANCE		
*IDS Realty Trust	20,000	\$ 267,300
*Imperial Corporation of America	30,000	222,750
*Lomas & Nettleton Financial Corporation	60,000	260,172
*Merrill Lynch & Co. Inc.	30,000	326,700
Reed Shaw Osler Limited	70,000	294,000
Royal Bank of Canada, The	15,000	390,000
*Western Bancorporation	20,000	314,424
		<u>\$ 2,075,346</u>
CONSUMER PRODUCTS		
Dominion Dairies Limited	64,000	\$ 536,320
Scott's Restaurants Co. Limited	100,000	480,000
		<u>\$ 1,016,320</u>
DATA PROCESSING		
*National Data Corporation	25,000	\$ 96,030
†*Shared Medical Systems Corporation, conv. pfd., of \$1	20,000	396,000
		<u>\$ 492,030</u>
ENERGY		
Peyto Oils Ltd.	25,000	\$ 55,000
*Pennzoil Co.	25,000	457,875
*Pennzoil Louisiana and Texas Offshore, Inc., Class "B"	150,000	501,930
*Pennzoil Offshore Gas Operators, Inc., Class "B"	100,000	705,870
*Standard Oil Company, The, Ohio	10,000	594,000
Wainoco Oil Ltd.	50,000	62,500
*Williams Companies	20,000	1,291,950
		<u>\$ 3,669,125</u>
FOREST PRODUCTS		
MacMillan Bloedel Limited	15,000	\$ 326,250
Weldwood of Canada Limited	20,000	140,000
		<u>\$ 466,250</u>
HEALTH CARE		
*National Medical Care, Inc.	125,454	\$ 558,898
*Survival Technology, Inc.	20,000	101,574
		<u>\$ 660,472</u>
MANUFACTURING		
Ivaco Industries Ltd.	60,000	\$ 607,800

	<u>Number of Shares</u>	<u>Market Value</u>
METALS AND MINING		
Lornex Mining Corporation Ltd.	40,000	\$ 146,000
Rio Algom Mines Limited	15,000	285,000
Yukon Consolidated Gold Corporation Limited, The	264,000	166,320
		<u>\$ 597,320</u>
REAL ESTATE		
Fairview Corporation of Canada Limited, The	25,000	\$ 250,000
*General Growth Properties, S.B.I.	30,000	382,536
Orlando Realty Corporation Limited, The	141,000	1,022,250
Sifton Properties Limited	40,000	182,000
		<u>\$ 1,836,786</u>
RETAILING		
Peoples Department Stores Ltd.	492,900	\$ 3,144,702
Tonecraft Limited	285,000	1,254,000
		<u>\$ 4,398,702</u>
MISCELLANEOUS		
*Midwestern Distribution, Inc., Class "A"	40,000	\$ 49,500
Resource Service Group Ltd., The	100,000	113,000
		<u>\$ 162,500</u>
TOTAL VALUE OF INVESTMENT PORTFOLIOS . .		<u><u>\$ 15,982,651</u></u>

*U.S. Securities.

†Restricted shares, at Directors' valuation.

**GBC CAPITAL LTD.
and subsidiary companies**

FIVE-YEAR FINANCIAL SUMMARY

	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>
Gross income	\$ 1,639,405	\$ 1,190,411	\$ 888,737	\$ 634,571	\$ 801,935
Net income	1,213,497	765,050	425,240	358,257	448,433
Per common share —					
Net income	0.34	0.17	0.04	0.02*	0.05*
Dividend paid	0.06	0.04	0.02	—	—
Total funds available	26,138,287	34,501,079	40,415,578	31,698,715	21,726,494
Shareholders' equity	22,913,106	31,103,857	36,891,727	26,909,349	21,726,494
Available for common shares	16,454,668	24,645,419	30,433,289	20,078,247	14,665,452
Net asset value per common share:					
Equity accounting basis	6.18	9.26	11.43	not applicable	
Market value basis	5.08	9.59	12.03	7.54*	5.44*

* Adjusted for 3 for 1 share split.

